PACIFIC PREMIER BANCORP INC
Form 10-Q
August 08, 2016
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE	33-0743196
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

17901 VON KARMAN AVENUE, SUITE 1200, IRVINE, CALIFORNIA 92614
(Address of principal executive offices and zip code)

(949) 864-8000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [_]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act).

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer (Do not check if a smaller reporting company) [ ]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes [ ] No [X]
The number of shares outstanding of the registrant’s common stock as of August 5, 2016 was 27,656,533.

1

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX
FOR THE QUARTER ENDED JUNE 30, 2016

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands)
(unaudited)

ASSETS	June 30, 2016	December 31, 2015
Cash and due from banks	$ 15,444	$ 14,935
Interest bearing deposits with financial institutions	169,855	63,482
Cash and cash equivalents	185,299	78,417
Interest bearing time deposits with financial institutions	3,944	1,972
Investments held to maturity, at amortized cost (fair value of $9,390 and $9,572 as of June 30, 2016 and December 31, 2015, respectively)	9,292	9,642
Investment securities available for sale, at fair value	245,471	280,273
FHLB, FRB and other stock, at cost	26,984	22,292
Loans held for sale, at lower of cost or market	10,116	8,565
Loans held for investment	2,920,619	2,254,315
Allowance for loan losses	(18,955)	(17,317)
Loans held for investment, net	2,901,664	2,236,998
Accrued interest receivable	12,143	9,315
Other real estate owned	711	1,161
Premises and equipment	11,014	9,248
Deferred income taxes, net	16,552	11,511
Bank owned life insurance	39,824	39,245
Intangible assets	10,500	7,170
Goodwill	101,939	50,832
Other assets	23,200	24,005
Total Assets	$ 3,598,653	$ 2,790,646
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES:		
Deposit accounts:		
Noninterest bearing checking	$ 1,043,361	$ 711,771
Interest-bearing:		
Checking	168,669	134,999
Money market/savings	1,099,445	827,378
Retail certificates of deposit	420,673	365,911
Wholesale/brokered certificates of deposit	198,853	155,064
Total interest-bearing	1,887,640	1,483,352
Total deposits	2,931,001	2,195,123
FHLB advances and other borrowings	120,252	196,125
Subordinated debentures	70,310	70,310
Accrued expenses and other liabilities	36,460	30,108
Total Liabilities	3,158,023	2,491,666
STOCKHOLDERS’ EQUITY:		
Preferred stock, $.01 par value; 1,000,000 authorized; none issued and outstanding	—	—
Common stock, $.01 par value; 100,000,000 shares authorized; 27,650,533 shares at June 30, 2016 and 21,510,746 shares at December 31, 2015	273	215

Additional paid-in capital	342,388	221,487
Retained earnings	95,869	76,946
Accumulated other comprehensive income, net of tax	2,100	332
Total Stockholder's Equity	440,630	298,980
Total Liabilities and Stockholder's Equity	$3,598,653	$2,790,646

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)
(unaudited)

	Three Months Ended			Six Months Ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
INTEREST INCOME					
Loans	$39,035	$ 35,407	$ 27,912	$74,442	$ 52,982
Investment securities and other interest-earning assets	1,839	2,098	2,158	3,937	3,715
Total interest income	40,874	37,505	30,070	78,379	56,697
INTEREST EXPENSE					
Deposits	2,010	2,069	1,589	4,079	3,195
FHLB advances and other borrowings	324	325	407	649	782
Subordinated debentures	979	910	982	1,889	1,953
Total interest expense	3,313	3,304	2,978	6,617	5,930
Net Interest Provision Before Provision for Loan Losses	37,561	34,201	27,092	71,762	50,767
Provision for loan losses	1,589	1,120	1,833	2,709	3,663
Net Interest Income After Provision For Loan Losses	35,972	33,081	25,259	69,053	47,104
NONINTEREST INCOME					
Loan servicing fees	302	327	393	629	737
Deposit fees	817	842	634	1,659	1,216
Net gain from sales of loans	2,124	1,906	2,721	4,030	2,721
Net gain from sales of investment securities	532	753	139	1,285	255
Other-than-temporary-impairment loss on investment securities	—	(207)	—	(207)	—
Other income	675	1,241	494	1,916	921
Total noninterest income	4,450	4,862	4,381	9,312	5,850
NONINTEREST EXPENSE					
Compensation and benefits	13,095	11,770	9,171	24,865	18,416
Premises and occupancy	2,597	2,391	2,082	4,988	3,911
Data processing and communications	887	911	716	1,798	1,418
Other real estate owned operations, net	(15)	8	56	(7)	104
FDIC insurance premiums	401	382	363	783	677
Legal, audit and professional expense	446	865	661	1,311	1,182
Marketing expense	775	630	615	1,405	1,218
Office and postage expense	573	481	505	1,054	1,004
Loan expense	540	403	263	943	456
Deposit expense	1,196	1,019	982	2,215	1,787
Merger-related expense	497	3,119	—	3,616	3,992
CDI amortization	645	344	344	989	658
Other expense	2,058	1,324	1,456	3,382	2,860
Total noninterest expense	23,695	23,647	17,214	47,342	37,683
Net Income Before Income Taxes	16,727	14,296	12,426	31,023	15,271
Income tax	6,358	5,742	4,601	12,100	5,658
Net Income	$10,369	$ 8,554	$ 7,825	$18,923	$ 9,613
EARNINGS PER SHARE					
Basic	$0.38	$ 0.33	$ 0.36	$0.72	$ 0.46
Diluted	0.37	0.33	0.36	$0.70	$ 0.46

WEIGHTED AVERAGE SHARES OUTSTANDING					
Basic	27,378,930	25,555,654	21,493,641	26,467,292	20,796,655
Diluted	27,845,490	25,952,184	21,828,876	26,901,627	21,126,542

Accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(unaudited)

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	
	2016	2016	2015	2016	2015
Net income	$10,369	$8,554	$7,825	$18,923	$9,613
Other comprehensive income, net of tax:					
Unrealized holding gains on securities arising during the period, net of income taxes (1)	947	1,565	(1,628)	2,512	(793)
Reclassification adjustment for net gain on sale of securities included in net income, net of income taxes (2)	(308)	(436)	(82)	(744)	(150)
Net unrealized gain on securities, net of income taxes	639	1,129	(1,710)	1,768	(943)
Comprehensive income	$11,008	$9,683	$6,115	$20,691	$8,670

(1) Income tax (benefit) on the unrealized gains (losses) on securities was $736,000 for the three months ended June 30, 2016, $1.1 million for the three months ended March 31, 2016, $(1.1) million for the three months ended June 30, 2015, $1.8 million for the six months ended June 30, 2016 and $(556,000) for the six months ended June 30, 2015.
(2) Income tax (benefit) on the reclassification adjustment for net (gains) losses on sale of securities included in net income was $224,000 for the three months ended June 30, 2016, $317,000 for the three months ended March 31, 2016, $57,000 for the three months ended June 30, 2015, $541,000 for the six months ended June 30, 2016 and $105,000 for the six months ended June 30, 2015.

Accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(dollars in thousands)
(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2015	21,570,746	$ 215	$221,487	$ 76,946	$ 332	$ 298,980
Net income	—	—	—	18,923	—	18,923
Other comprehensive income	—	—	—	—	1,768	1,768
Share-based compensation expense	—	—	1,048	—	—	1,048
Issuance of restricted stock, net	218,236	—	—	—	—	—
Common stock issued	5,815,051	58	119,325	—	—	119,383
Exercise of stock options	46,500	—	528	—	—	528
Balance at June 30, 2016	27,650,533	$ 273	$342,388	$ 95,869	$ 2,100	$ 440,630
Balance at December 31, 2014	16,903,884	$ 169	$147,474	$ 51,431	$ 518	$ 199,592
Net income	—	—	—	9,613	—	9,613
Other comprehensive income	—	—	—	—	(943)	(943)
Share-based compensation expense	—	—	435	—	—	435
Common stock issued	4,480,645	45	72,207	—	—	72,252
Warrants exercised	125,196	1	688	—	—	689
Repurchase of common stock	(5,833)	—	(93)	—	—	(93)
Exercise of stock options	6,666	—	48	—	—	48
Balance at June 30, 2015	21,510,558	$ 215	$220,759	$ 61,044	$ (425)	$ 281,593

Accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$ 18,923	$ 9,613
Adjustments to net income:		
Depreciation and amortization expense	1,348	1,244
Provision for loan losses	2,709	3,663
Share-based compensation expense	1,048	435
Loss on sale of or write down of other real estate owned	(18)	92
Net amortization on securities held for sale, net	7,080	1,763
Net accretion of discounts/premiums for loans acquired and deferred loan fees/costs	(6,713)	(967)
Gain on sale of investment securities available for sale	(1,285)	(255)
Originations of loans held for sale	(44,463)	—
Proceeds from the sales of and principal payments from loans held for sale	47,487	—
Gain on sale of loans	(4,030)	(2,721)
Deferred income tax benefit	(977)	1,706
Change in accrued expenses and other liabilities, net	(1,700)	(1,840)
Income from bank owned life insurance, net	(579)	(643)
Amortization of core deposit intangible	989	—
Change in accrued interest receivable and other assets, net	5,904	(5,159)
Net cash provided by operating activities	25,723	6,931
Cash flows from investing activities:		
Increase in loans, net	(204,505)	(154,121)

Change in other real estate owned from sales and writedowns	468	234
Principal payments on securities available for sale	18,234	15,907
Purchase of securities available for sale	(5,135)	(60,132)
Proceeds from sale or maturity of securities available for sale	211,303	16,070
Proceeds from the sale of premises and equipment	6,987	(842)
Purchases of premises and equipment	(5,745)	—
Change in FHLB, FRB, and other stock, at cost	(4,692)	(3,407)
Cash acquired in acquisitions	40,303	2,961
Net cash provided by (used in) investing activities	57,218	(183,330)
Cash flows from financing activities:		
Net increase in deposit accounts	99,286	129,139
Change in FHLB advances and other borrowings, net	(75,873)	17,446
Proceeds from issuance of common stock, net of issuance cost	—	1,323
Proceeds from exercise of stock options and warrants	528	48
Warrants exercised	—	688
Repurchase of common stock	—	(93)
Net cash provided by financing activities	23,941	148,551
Net increase (decrease) in cash and cash equivalents	106,882	(27,848)
Cash and cash equivalents, beginning of year	78,417	110,925
Cash and cash equivalents, end of year	$ 185,299	$ 83,077
Supplemental cash flow disclosures:		
Interest paid	$ 6,586	$ 5,979
Income taxes paid	12,958	7,450
Assets acquired (liabilities assumed and capital		

created) in acquisitions (See Note 4):		
Investment securities	190,254	53,752
FHLB and Other Stock	3,671	2,369
Loans	456,158	332,893
Core deposit intangible	4,319	2,903
Deferred income tax	7,069	4,794
Bank owned life insurance	—	11,276
Goodwill	51,106	27,882
Fixed assets	4,502	2,134
Other assets	5,610	2,402
Deposits	(636,591)	(336,018)
Other borrowings	—	(33,300)
Other liabilities	(8,843)	(1,796)
Common stock and additional paid-in capital	(119,383)	(70,929)

Accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016
(UNAUDITED)
Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the “Corporation”) and its wholly owned subsidiaries, including Pacific Premier Bank (the “Bank”) (collectively, the “Company,” “we,” “our” or “us”). A significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2016 and December 31, 2015, the results of its operations and comprehensive income for the three months ended June 30, 2016, March 31, 2016 and June 30, 2015 and the six months ended June 30, 2016 and June 30, 2015 and the changes in stockholders’ equity and cash flows for the six months ended June 30, 2016 and 2015. Operating results or comprehensive income for the six months ended June 30, 2016 are not necessarily indicative of the results or comprehensive income that may be expected for any other interim period or the full year ending December 31, 2016.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 Annual Report”).

The Company accounts for its investments in its wholly owned special purpose entity, PPBI Trust I, under the equity method whereby the subsidiary’s net earnings are recognized in the Company’s statement of operations.

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Pending Adoption

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit lossses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities, the amendment is effective for annual periods beginning after December 15, 2019 and interim period within those annual periods. The Company is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures.

Table of Contents

Note 3 – Significant Accounting Policies

Certain Acquired Loans: As part of business acquisitions, the Bank acquires certain loans that have shown evidence of credit deterioration since origination. These acquired loans are recorded at the allocated fair value, such that there is no carryover of the seller's allowance for loan losses. Such acquired loans are accounted for individually. The Bank estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the allocated fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded through the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Goodwill and Core Deposit Intangible: Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate the necessity for such impairment tests to be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Core deposit intangible assets arising from whole bank acquisitions are amortized on a straight-line amortization method over their estimated useful lives, which range from 6 to 10 years.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly subject to change.

Note 4 – Acquisitions

The Company accounted for the following transactions under the acquisition method of accounting which requires purchased assets and liabilities assumed to be recorded at their respective fair values at the date of acquisition. The Company determined the fair value of the loans, core deposit intangible, securities and deposits with the assistance of third party valuations.

The estimated fair values in these acquisitions are subject to refinement as additional information relative to the closing date fair values become available through the measurement period, which can extend for up to one year after the closing date of the transaction. While additional significant changes to the closing date fair values are not expected, any information relative to the changes in these fair values will be evaluated to determine if such changes are due to events and circumstances that existed as of the acquisition date. During the measurement period, any such changes will be recorded as part of the closing date fair value.

Table of Contents

Security California Bancorp Acquisition

On January 31, 2016, the Company completed its acquisition of Security California Bancorp ("SCAF") whereby we acquired $715 million in total assets, $456 million in loans and $637 million in total deposits. Under the terms of the merger agreement, each share of SCAF common stock was converted into the right to receive 0.9629 shares of the Corporation's common stock. The value of the total deal consideration was $120 million, which includes $788,000 of aggregate cash consideration to the holders of SCAF stock options and the issuance of 5,815,051 shares of the Corporation's common stock, valued at $119.4 million based on a closing stock price of $20.53 per share on January 29, 2016.

SCAF was the holding company of Security Bank of California, a Riverside, California, based state-chartered bank with six branches located in Riverside County, San Bernardino County and Orange County.

Goodwill in the amount of $51.1 million was recognized in the SCAF acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of SCAF as of January 31, 2016 and the provisional fair value adjustments and amounts recorded by the Company in 2016 under the acquisition method of accounting:

	SCAF Book Value	Fair Value Adjustments	Fair Value
ASSETS ACQUIRED	(in thousands)		
Cash and cash equivalents	$40,947	$ —	$40,947
Interest bearing deposits with financial institutions	1,972	—	1,972
Investment securities	191,881	(1,627)	190,254
Loans, gross	467,197	(11,039)	456,158
Allowance for loan losses	(7,399)	7,399	—
Fixed assets	5,335	(833)	4,502
Core deposit intangible	493	3,826	4,319
Deferred tax assets	5,618	1,451	7,069
Other assets	10,589	(1,308)	9,281
Total assets acquired	$716,633	$ (2,131)	$714,502
LIABILITIES ASSUMED			
Deposits	$636,450	$ 141	$636,591
Other Liabilities	9,063	(220)	8,843
Total liabilities assumed	645,513	(79)	645,434
Excess of assets acquired over liabilities assumed	$71,120	$ (2,052)	69,068
Consideration paid			120,174
Goodwill recognized			$51,106

The fair values are preliminary estimates and are subject to adjustment for up to one year after the merger date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. In the second quarter of 2016, the Company made a $146,000 adjustment to fixed assets and goodwill.

Table of Contents

Independence Bank Acquisition

On January 26, 2015, the Company completed its acquisition of Independence Bank ("IDPK") in exchange for consideration valued at $79.8 million, which consisted of $6.1 million of cash consideration for IDPK common stockholders, $1.5 million of aggregate cash consideration to the holders of IDPK stock options and warrants, $1.3 million fair market value of warrants assumed and the issuance of 4,480,645 shares of the Corporation's common stock, which was valued at $70.9 million based on the closing stock price of the Corporation's common stock on January 26, 2015 of $15.83 per share.

IDPK was a Newport Beach, California based state-chartered bank. The acquisition was an opportunity for the Company to strengthen its competitive position as one of the premier community banks headquartered in Southern California. Additionally, the IDPK acquisition enhanced and connected the Company's footprint in Southern California.

Goodwill in the amount of $27.9 million was recognized in the IDPK acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

Table of Contents

The following table represents the assets acquired and liabilities assumed of IDPK as of January 26, 2015 and the fair value adjustments and amounts recorded by the Company in 2015 under the acquisition method of accounting:

	IDPK Book Value	Fair Value Adjustments	Fair Value
	(in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	$10,486	$ —	$10,486
Investment securities	56,503	(382)	56,121
Loans, gross	339,502	(6,609)	332,893
Allowance for loan losses	(3,301)	3,301	—
Deferred income taxes	5,266	(472)	4,794
Bank owned life insurance	11,276	—	11,276
Core deposit intangible	904	1,999	2,903
Other assets	3,756	780	4,536
Total assets acquired	$424,392	$ (1,383)	$423,009
LIABILITIES ASSUMED			
Deposits	$335,685	$ 333	$336,018
FHLB advances	33,300	—	33,300
Other liabilities	1,916	(120)	1,796
Total liabilities assumed	370,901	213	371,114
Excess of assets acquired over liabilities assumed	$53,491	$ (1,596)	51,895
Consideration paid			79,777
Goodwill recognized			$27,882

For loans acquired from SCAF and IDPK, the contractual amounts due, expected cash flows to be collected, interest component and fair value as of the respective acquisition dates were as follows:

	Acquired Loans	
	SCAF	IDPK
	(in thousands)	
Contractual amounts due	$539,806	$453,987
Cash flows not expected to be collected	2,765	3,795
Expected cash flows	537,041	450,192
Interest component of expected cash flows	80,883	117,299
Fair value of acquired loans	$456,158	$332,893

In accordance with generally accepted accounting principles, there was no carryover of the allowance for loan losses that had been previously recorded by SCAF or IDPK.

Table of Contents

The operating results of the Company for the six months ending June 30, 2016 include the operating results of SCAF and IDPK since their respective acquisition dates. The operating results of the Company for the six months ending June 30, 2015 include the operating results of IDPK since its acquisition date. The following table presents the net interest and other income, net income and earnings per share as if the acquisitions of SCAF and IDPK were effective as of January 1, 2016 and 2015. There were no material, nonrecurring adjustments to the pro forma net interest and other income, net income and earnings per share presented below:

	Six Months Ended June 30,	
	2016	2015
	(dollars in thousands)	
Net interest and other income	$80,512	$67,729
Net income	16,952	11,137
Basic earnings per share	0.62	0.41
Diluted earnings per share	0.61	0.40

Table of Contents

Note 5 – Investment Securities

The amortized cost and estimated fair value of securities were as follows:

	June 30, 2016			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Available-for-sale:				
Municipal bonds	$115,755	$ 3,044	$ —	$118,799
Collateralized mortgage obligation	22,570	274	—	22,844
Mortgage-backed securities	103,512	604	(288)	103,828
Total available-for-sale	241,837	3,922	(288)	245,471
Held-to-maturity:				
Mortgage-backed securities	8,076	98	—	8,174
Other	1,216	—	—	1,216
Total held-to-maturity	9,292	98	—	9,390
Total securities	$251,129	$ 4,020	$ (288)	$254,861

	December 31, 2015			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Available-for-sale:				
Municipal bonds	$128,546	$ 1,796	$ (97)	$130,245
Collateralized mortgage obligation	24,722	4	(183)	24,543
Mortgage-backed securities	126,443	153	(1,111)	125,485
Total available-for-sale	279,711	1,953	(1,391)	$280,273
Held-to-maturity:				
Mortgage-backed securities	8,400	—	(70)	8,330
Other	1,242	—	—	1,242
Total held-to-maturity	9,642	—	(70)	9,572
Total securities	$289,353	$ 1,953	$ (1,461)	$289,845

At June 30, 2016, mortgage-backed securities (“MBS”) with an estimated par value of $59.6 million and a fair value of $62.1 million were pledged as collateral for the Bank’s three reverse repurchase agreements which totaled $28.5 million and homeowner’s association (“HOA”) reverse repurchase agreements which totaled $16.8 million.

The Company reviews individual securities classified as available-for-sale to determine whether a decline in fair value below the amortized cost basis is temporary because (i) those declines were due to interest rate changes and not to a deterioration in the creditworthiness of the issuers of those investment securities, and (ii) we have the ability to hold those securities until there is a recovery in their values or until their maturity.

If it is probable that the Company will be unable to collect all amounts due according to contractual terms of the debt security not impaired at acquisition, an other-than-temporary ("OTTI") shall be considered to have occurred. If an OTTI occurs, the cost basis of the security will be written down to its fair value as the new cost basis and the write down accounted for as a realized loss.

Table of Contents

The Company did not realize any OTTI losses for the three months ended June 30, 2016 or June 30, 2015. The Company realized OTTI losses of $207,000 for the three months ended March 31, 2016. The OTTI loss relates to a CRA investment purchased in June of 2014 with a par value of $50, and a book value of $500,000. In March of 2016 the shareholders of the investment voted to approve a sale of the institution at a per share acquisition price less the Bank's book value, with an expected closing by mid-2016. As a result, the Bank's current holdings were written down and the loss recognized.

During the six months ended June 30, 2016, the Company realized OTTI losses of $207,000. The Company did not realize any OTTI losses for the six months ended June 30, 2015.

During the three months ended June 30, 2016, March 31, 2016 and June 30, 2015, the Company recognized gross gains on sales of available-for-sale securities in the amount of $532,000, $762,000 and $146,000, respectively. During the three months ended June 30, 2016, the Company did not recognize any gross losses on the sales of available-for sale securities. During the three months ended March 31, 2016 and June 30, 2015, the Company recognized gross losses on sales of available-for-sale securities in the amount of $9,000 and $7,000, respectively. The Company had net proceeds from the sale of available-for-sale securities of $21.1 million and $186 million and $7.3 million during the three months ended June 30, 2016, March 31, 2016 and June 30, 2015, respectively.

During the six months ended June 30, 2016 and June 30, 2015, the Company recognized gross gains on sales of available-for-sale securities in the amount of $1.3 million and $264,000. During the six months ended June 30, 2016 and June 30, 2015, the Company recognized gross losses on sales of available-for-sale securities in the amount of $9,000 and $9,000. The Company had net proceeds from the sale of available-for-sale securities of $207 million and $16.1 million during the six months ended June 30, 2016 and June 30, 2015, respectively.

The table below shows the number, fair value and gross unrealized holding losses of the Company’s investment securities by investment category and length of time that the securities have been in a continuous loss position.

	June 30, 2016								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Available-for-sale:									
Mortgage-backed securities	9	16,209	(77)	8	21,940	(211)	17	38,149	(288)
Total securities	9	$16,209	$ (77)	8	$21,940	$ (211)	17	$38,149	$ (288)

15

Table of Contents

	December 31, 2015								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Available-for-sale:									
Municipal bonds	32	$15,516	$ (61)	6	$3,349	$ (36)	38	$18,865	$ (97)
Collateralized mortgage obligation	5	22,771	(183)	—	—	—	5	22,771	(183)
Mortgage-backed securities	34	83,488	(679)	3	12,935	(432)	37	96,423	(1,111)
Total securities available-for-sale	71	121,775	(923)	9	16,284	(468)	80	138,059	(1,391)
Held-to-maturity:									
Mortgage-backed securities	1	8,330	(70)	—	—	—	1	8,330	(70)
Total securities held-to-maturity	1	8,330	(70)	—	—	—	1	8,330	(70)
Total securities	72	$130,105	$ (993)	9	$16,284	$ (468)	81	$146,389	$ (1,461)

The amortized cost and estimated fair value of investment securities at June 30, 2016, by contractual maturity are shown in the table below.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)									
Available-for-sale:										
Municipal bonds	$1,415	$1,416	$28,380	$28,806	$37,618	$38,956	$48,342	$49,621	$115,755	$118,799
Collateralized mortgage obligation	—	—	—	—	—	—	22,570	22,844	22,570	22,844
Mortgage-backed securities	—	—	—	—	20,961	21,143	82,551	82,685	103,512	103,828
Total securities available-for-sale	1,415	1,416	28,380	28,806	58,579	60,099	153,463	155,150	241,837	245,471
Held-to-maturity:										
Mortgage-backed securities	—	—	—	—	—	—	8,076	8,174	8,076	8,174
Other	—	—	—	—	—	—	1,216	1,216	1,216	1,216
Total securities held-to-maturity	—	—	—	—	—	—	9,292	9,390	9,292	9,390
Total securities	$1,415	$1,416	$28,380	$28,806	$58,579	$60,099	$162,755	$164,540	$251,129	$254,861

Table of Contents

Unrealized gains and losses on investment securities available for sale are recognized in stockholders' equity as accumulated other comprehensive income or loss. At June 30, 2016, the Company had accumulated other comprehensive income of $3.6 million, or $2.1 million net of tax, compared to accumulated other comprehensive income of $562,000, or $332,000 net of tax, at December 31, 2015.

FHLB, FRB and other stock

At June 30, 2016, the Company had $14.4 million in Federal Home Loan Bank ("FHLB") stock, $7.9 million in Federal Reserve Bank of San Francisco ("FRB") stock, and $4.7 million in other stock, all carried at cost. During the three months ended June 30, 2016 and December 31, 2015, FHLB did not repurchase any of the Company's excess FHLB stock through their stock repurchase program. The Company evaluates its investments in FHLB and other stock for impairment periodically, including their capital adequacy and overall financial condition. No impairment losses have been recorded through June 30, 2016.

Table of Contents

Note 6 – Loans Held for Investment

The following table sets forth the composition of our loan portfolio in dollar amounts at the dates indicated:

	June 30, 2016	December 31, 2015
	(in thousands)	
Business loans:		
Commercial and industrial	$508,141	$309,741
Franchise	403,855	328,925
Commercial owner occupied (1)	443,060	294,726
SBA	86,076	62,256
Warehouse facilities	—	143,200
Real estate loans:		
Commercial non-owner occupied	526,362	421,583
Multi-family	613,573	429,003
One-to-four family (2)	106,538	80,050
Construction	215,786	169,748
Land	18,341	18,340
Other loans	5,822	5,111
Total gross loans (3)	2,927,554	2,262,683
Less Loans held for sale, net	10,116	8,565
Total gross loans held for investment	2,917,438	2,254,118
Less:		
Deferred loan origination costs/(fees) and premiums/(discounts), net	3,181	197
Allowance for loan losses	(18,955)	(17,317)
Loans held for investment, net	$2,901,664	$2,236,998

(1) Majority secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans for June 30, 2016 are net of the unaccreted mark-to-market discounts of $12.7 million.

From time to time, we may purchase or sell loans in order to manage concentrations, maximize interest income, change risk profiles, improve returns and generate liquidity.

The Company makes residential and commercial loans held for investment to customers located primarily in California. Consequently, the underlying collateral for our loans and a borrower’s ability to repay may be impacted unfavorably by adverse changes in the economy and real estate market in the region.

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of the Bank’s unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $128.4 million for secured loans and $77.0 million for unsecured loans at June 30, 2016. At June 30, 2016, the Bank’s largest aggregate outstanding balance of loans to one borrower was $40.0 million of secured credit.

Table of Contents

Purchased Credit Impaired

The following table provides a summary of the Company's principal investment in purchased credit impaired loans, acquired from Canyon National Bank, IDPK and SCAF as of the period indicated: